

September 20, 2018

Inventory Management Audit

Background

An internal Warehousing and Inventory Management project was commenced in 2013 to review and address several warehousing challenges. The project was completed in 2016 and the Supply Chain Management (SCM) Warehouse & Inventory Operations department has been overseeing the warehousing and inventory management functions for the City. SCM's mandate was to have the warehousing and inventory functions deliver essential commodities efficiently and effectively to ensure the implementation of best practices in materials management to support the business units in the delivery of City services.

The SCM Warehouse & Inventory Operations department is responsible for 11 warehouses across the City and oversight of each warehouse is allocated amongst three division managers.

| | Warehouse | Division | Inventory Value ¹ | Inventory Type |
|---|--|----------|------------------------------|---|
| 1 | Central Stores ² | A | \$3,162,000 (36%) | Stock for Water and Sewers |
| 2 | National Stores ² | A | \$2,903,000 (33%) | Stock for Streets and Traffic |
| 3 | Equipment Services (EQS) Manitoba ³ | B | N/A - Not in scope | Fleet, except for Fire, and related fleet inventory |
| 4 | EQS National ³ | B | | Fleet |
| 5 | EQS Landfill ³ | B | | Fleet (dump trucks) |
| 6 | Vancouver Fire and Rescue Services (VFRS) | B | \$214,000 (2%) | Fire trucks and fire equipment |
| 7 | Heavy Urban Search & Rescue (HUSAR) ⁴ | B | \$1,897,000 (22%) | Search and Rescue emergency material |
| 8 | Evans Yard | C | \$426,000 (5%) | Stock for Parks |
| 9 | Civic Theatre (QE Theatre) | C | \$79,000 (1%) | Stock for bars at theatres (snacks and drinks) |

¹ SAP inventory value as at December 31, 2017

² Inventory value includes stock and non-stock inventory

³ These warehouses were not included in the Inventory Management audit scope as SCM is currently migrating to a new inventory tracking software as part of the Fleet Information Management System (FIMS) replacement

⁴ HUSAR inventory is jointly managed by SCM and Vancouver Fire & Rescue Services

| | | | | |
|--------------|----------------------------|---|--------------------|---|
| 10 | Civic Theatre (Orpheum) | C | | |
| 11 | Parks Concession Warehouse | C | \$27,000 (0.3%) | Stock for Stanley Park concession stands (snacks, drinks and fast food) |
| Total | | | \$8,708,000 | |

Each warehouse has designated Inventory Planners/Buyers (IPBs) who are responsible for the purchasing of routine inventory used for the internal City business units serviced by the warehouses. Purchases for the business units are made and stored at the warehouses before they are sold internally to the various business units (or “customers”) within the City. For example, Engineering purchases inventory from SCM to use for their projects and pays through internal fund transfers.

Stock versus Non-stock inventory

Generally, “stock” is referred to as active inventory being sold to customers and “non-stock” is referred to as obsolete inventory or inventory owned by customers but being stored at SCM’s warehouses.

Inventory Counts

As inventory must be required to service customers throughout the year, cycle counts are performed to minimize service disruption. This involves daily counts rather than one large inventory count at the end of the year. The methodology on managing the inventory count schedule varies across warehouses but all inventories should be counted at least once during a twelve month period, and higher value items and items with high turnover rates should be counted more frequently.

Surplus Sales

In addition to the warehousing function, Central Stores also provides a service where unused or obsolete assets can be sold for proceeds across the City. This service is mainly used by Engineering Equipment Services (EQS) for sale of fleet or small equipment, but is also utilized for unused furniture and other miscellaneous items that have reached its end-of life at the City. These assets are sent to Central Stores before the Surplus Sales IPB processes the sales through one of three auctioneers. 5 - 15% of sale price has been charged by SCM as commission for their services and the remaining funds are credited back to the respective business unit.

Scope

The audit objectives were to provide reasonable and independent assurance that the existing internal controls and business processes related to inventory management were adequate and effective and to determine whether:

- Controls are in place for optimal inventory planning and management;
- Inventory is properly tracked and counted between receiving and issuance to business unit customers;
- Obsolete inventory is reviewed regularly and appropriate write-offs are performed;
- Surplus Sales are properly tracked, managed and sold through appropriate channels; and
- Inventory counts are performed regularly and appropriately.

Our work included:

- Interviews with key staff and management involved in key inventory processes;
- Observation of inventory cycle counts for key warehouses;
- Sample inventory count for key warehouses;
- Review of appropriate supporting documents; and
- Assessment of warehouse security.

The focus of the audit was on Central Stores (36% of total inventory value), National Stores (33%) and HUSAR (22%) as these three warehouses hold the highest inventory values and account for 91% of total inventory value for the warehouses in-scope for this audit.

The EQS Manitoba, EQS National and EQS Landfill warehouses were not included in the audit scope because the computer software used to track inventory is in the midst of migration from CCG Systems to FleetFocus/M5 with an expected go-live date of Spring 2019.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

Conclusion

Internal controls over inventory management with the SCM's warehouses require improvement. A guideline for inventory storage should be created for SCM Warehouse & Inventory Operations, there should be stronger oversight around inventory counts, a reliable inventory count technology solution should be implemented and all inventories should be properly labeled.

The more significant findings and recommendations are:

E.1 Establish SCM Warehouse & Inventory Operations guideline for storage of inventory and define roles and responsibilities

A guideline for inventory storage should be created to provide internal customers with an understanding of the Supply Chain Management (SCM) department's purpose and goals. This should include details of the warehousing and inventory management services provided and the accountability for inventory storage.

E.2 Establish oversight around inventory counts and implement a reliable inventory count technology solution

Providing stronger oversight around approvals for inventory count discrepancies helps minimize the risk of inventory misappropriation. Identifying and implementing a reliable inventory count technology solution is also important for maximizing efficiency and to ensure all inventory is counted frequently and appropriately.

E.3 Improve inventory tracking

Proper inventory identification is essential in running an effective and efficient warehouse. All inventory should be identified easily and individual labels should be created as appropriate to minimize the risk of issuing incorrect products to customers and potentially delaying City projects.

E.4 Improve inventory controls at the Heavy Urban Search and Rescue warehouse

Ensuring the Heavy Urban Search and Rescue inventory database is accurate and implementing appropriate barcodes is essential to having an efficient process during emergencies.

Findings and recommendations have been discussed with management and work is underway to address them.